

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 INT-05 GSA-02 /064 W
-----106442 251212Z /11

R 231830Z NOV 77
FM AMEMBASSY GEORGETOWN
TO SECSTATE WASHDC 5729
INFO AMEMBASSY KINGSTON
AMEMBASSY PARAMARIBO
AMEMBASSY PORT OF SPAIN

LIMITED OFFICIAL USE GEORGETOWN 3028

E.O. 11652: N/A
TAGS: EMIN, ELAB, GY
SUBJECT: FALLING REVENUES AND POSSIBLE LABOR UNREST IN GUYANA'S
BAUXITE INDUSTRY

BEGIN SUMMARY. CHAIRMAN OF GUYMINE, GOVERNMENT'S BAUXITE
AUTHORITY, HAS ANNOUNCED A 21 PER CENT DROP IN SALES OF
CALCINED BAUXITE AS A RESULT OF THE DEPRESSED CONDITION
OF THE STEEL INDUSTRY WORLDWIDE. ADDED TO AN INCREASED
MINIMUM WAGE PAYOUT DUE TON EARLY DECEMBER 1977, THIS
DEVELOPMENT WILL HAVE A SERIOUS IMPACT ON PROFIT LEVELS
AND, PERHAPS, EMPLOYMENT AT A LATER STAGE. HOWEVER,
INDUSTRY OFFICIALS BELIEVE THAT CASH FLOWS WILL PERMIT
INDUSTRY TO MEET EXTERNAL OBLIGATIONS, INCLUDING COMPENSATION
PAYMENTS TO ALCAN AND REYNOLDS. END SUMMARY.

1. IN A NOVEMBER 15, 1977 PRESS RELEASE, W.H. PARRIS,
CHAIRMAN OF GUYANA MINING ENTERPRISES LTD. ("GUYMINE"), THE
GOVERNMENT BAUXITE MONOPOLY WHICH IN FEBRUARY 1976 MERGED
THE LINDEN OPERATION OF GUYBAU (FORMERLY ALCAN) AND
THE BERBICE OPERATIONS OF BERMINE (FORMERLY REYNOLDS),
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ANNOUNCED THAT THE COMPANY IS FACED WITH FALLING ORDERS
FOR CALCINED BAUXITE FROM OVERSEAS STEEL PRODUCERS,
AS A RESULT OF DEPRESSED WORLD MARKET CONDITIONS IN THE
STEEL INDUSTRY. (CALCINED BAUXITE IS USED TO MAKE
REFRACTORY BRICK FOR STEEL FURNACES.) PARRIS REVEALED
THAT, WHEREAS AT THE BEGINNING OF 1977 OVERSEAS CUSTOMERS
HAD INDICATED THEIR INTENTIONS OF PURCHASING 800,000 TONS

OF CALCINED BAUXITE UNDER THE COMPANY'S ALLOCATION ARRANGEMENTS, BY NOVEMBER 1977 DEMAND HAD DROPPED 21 PER CENT TO 632,000 TONS. HE FURTHER STATED THAT THIS SITUATION IS LIKELY TO CONTINUE FOR SEVERAL MORE MONTHS, WELL INTO 1978, WITH RECOVERY IN SALES DEPENDING ON GROWTH IN THE MAJOR WORLD ECONOMIES. HE WARNED THAT WHILE EFFORTS WOULD BE MADE TO AVOID RETRENCHMENT, THERE WOULD BE AN "ADVERSE IMPACT ON THE NUMBER OF PERMANENT EMPLOYEES AND THE COMPANY'S LEVEL OF PROFITABILITY."

2. TO OBTAIN ADDITIONAL INFORMATION EMBASSY ECON OFFICER CALLED ON A. KRISHNAN, COMPANY FINANCIAL DIRECTOR, WHO COMMENTED THAT THE IMPACT ON REVENUES AND PROFITABILITY OF THE DROP IN DEMANDS FOR CALCINED BAUXITE HAD NOT YET BEEN QUANTIFIED BY MANAGEMENT. HE NOTED THAT CALCINED BAUXITE REPRESENTS MORE THAN 50 PER CENT OF SALES AND IS THE COMPANY'S MOST PROFITABLE PRODUCT, SUGGESTING THAT PROPORTIONATELY PROFITS ARE LIKELY TO BE AFFECTED MORE THAN REVENUES. (ACCORDING TO OFFICIAL TRADE STATISTICS FOR 1976. EXPORTS OF CALCINED BAUXITE TOTALED G\$190.6 MILLION, OTHER BAUXITE PRODUCTS, PRIMARILY ALUMINA, G\$99.4 MILLION. FIGURES FOR FIRST HALF 1977 ARE G\$105.3 MILLION AND G\$59.1 MILLION, RESPECTIVELY.) HE DID NOT ANTICIPATE A REDUCTION IN PRICE, AS A RESULT OF DECREASING DEMAND, NOR PROBLEMS IN MEETING COMPENSATION PAYMENTS TO ALCAN AND REYNOLDS, EXPLAINING THAT CASH FLOWS AND LIMITED OFFICIAL USE

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AN EXISTING "SURPLUS" WOULD BE ADEQUATE TO MEET EXTERNAL OBLIGATIONS. AS FOR THE COMPANY'S EMPLOYMENT POLICY, HE ASSERTED THAT FOR THE PRESENT EMPLOYMENT LEVELS IN THE PERMANENT WORK FORCE WOULD BE MAINTAINED AND THAT ONLY "CASUAL" LABORERS WOULD BE LAID OFF. HE CONCEDED, HOWEVER, THAT THE PERMANENT WORK FORCE COULD BE AFFECTED OVER THE LONG RUN, IF THE COMPANY'S FINANCIAL SITUATION SERIOUSLY DETERIORATES. (THIS SEEMS SOMEWHAT AT VARIANCE WITH THE NOV. 15 PRESS RELEASE STATEMENT, WHICH WARNED THAT PERMANENT EMPLOYEES WOULD BE AFFECTED AND THAT IT IS LIKELY THAT "EMPLOYMENT WILL HAVE TO FALL AS PRODUCTION FALLS.")

3. IN THE MEANTIME, GUYMINE IS INVOLVED IN NEGOTIATIONS WITH GUYANA MINE WORKERS' UNION (GMWU) OVER 85 DEMANDS PRESENTED BY THE UNION. GMWU HAS TAKEN POSITION THAT IT IS NOT NECESSARILY BOUND BY THE GUIDELINES OF THE EXISTING MINIMUM WAGE AGREEMENT NEGOTIATED BETWEEN THE TRADE UNION COUNCIL (TUC) AND THE GOG. NEVERTHELESS, MANAGEMENT HAD INDICATED WITH APPROVAL OF MINISTRY OF LABOR THAT THE COMPANY WILL GO AHEAD AND MAKE PAYMENTS BY DECEMBER 9, 1977 ON THE BASIS OF THE MINIMUM WAGE AGREEMENT. ANOTHER KEY ISSUE IS PROFIT SHARING. NO

AGREEMENT ON A FORMULA HAS BEEN REACHED. THE UNION ALSO IS DEMANDING THAT PROFITS BE CALCULATED ON AN ANNUAL BASIS RATHER THAN A QUARTERLY BASIS, IN THE BELIEF THAT THIS SYSTEM WILL INCREASE THE AMOUNT AVAILABLE FOR SHARING.

4. COMMENT. ALTHOUGH THE COMPANY HAS NOT ANNOUNCED A RETRENCHMENT PLAN, RUMORS OF A MASSIVE LAYOFF ARE CIRCULATING. IN A RECENT CONVERSATION WITH EMBASSY ECON OFFICER, GUYANA CHRONICLE COLUMNIST HAMALUDIN (WHO OFTEN IS A RELIABLE "UNOFFICIAL" GOG SOURCE) ESTIMATED THAT AS MANY AS ONE THOUSAND WORKERS ARE LIKELY TO BE AFFECTED IN THE LONG RUN. IT IS NOT UNLIKELY, THEREFORE, THAT GOG (SHOULD LAYOFFS MATERIALIZE) WILL BE FACED WITH AN IMPORTANT LABOR PROBLEM IN THE BAUXITE LIMITED OFFICIAL USE

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INDUSTRY TO MATCH THE CRIPPLING SUGAR STRIKE WHICH HAS DRAGGED ON FOR THE LAST THREE MONTHS. AND THE LOSS IN GOVERNMENT REVENUES DUE TO THE DROP IN DEMAND FOR CALCINED BAUXITE - PREVIOUSLY THE ONE 'BRIGHT SPOT' IN GUYANA'S TROUBLED ECONOMY -- THREATENS TO FORCE GUYANA EVEN DEEPER INTO THE BALANCE OF PAYMENTS HOLE IT HAS BEEN IN FOR OVER THE LAST YEAR. BURKE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LABOR, BAUXITE, INDUSTRY, REPORTS, GOVERNMENT REVENUES, POLITICAL SITUATION
Control Number: n/a
Copy: SINGLE
Sent Date: 23-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977GEORGE03028
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770437-0471
Format: TEL
From: GEORGETOWN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771127/aaaaawnf.tel
Line Count: 144
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7d2ca413-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 31-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 479508
Secure: OPEN
Status: NATIVE
Subject: FALLING REVENUES AND POSSIBLE LABOR UNREST IN GUYANA'S BAUXITE INDUSTRY BEGIN SUMMARY. CHAIRMAN OF GUYMINE, GOVERNMENT'S
TAGS: EMIN, ELAB, GY
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/7d2ca413-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009